Postal Regulatory Commission
Submitted 1/31/2014 3:18:43 PM
Filing ID: 89087
Accepted 1/31/2014

BEFORE THE POSTAL REGULATORY COMMISSION

WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2013 **Docket No. ACR2013**

COMMENTS OF PITNEY BOWES INC.

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DATED: January 31, 2014

I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments on the Annual Compliance Report for Fiscal Year 2013, filed by the Postal Service on December 27, 2013 (FY2013 ACR). These comments address: (1) the disparity in the cost coverage and unit contribution of First-Class Mail Single-Piece and Presort Letters / Cards, (2) the importance of using Commission approved methodologies for measuring workshare passthroughs within Automation First-Class Mail Letters, and (3) cost modeling changes necessary in First-Class Mail Flats.

II. DISCUSSION

A. ACR2013 Data Confirm A Continuing Disparity in the Cost Coverage and Unit Contribution of First-Class Single-Piece and Presort Letters

The FY2013 ACR confirms that First-Class Mail Presort Letters / Cards continue to be much more profitable than Single-Piece First-Class Mail Letters / Cards. In FY 2013, the unit contribution for First-Class Mail Presort Letters / Cards was 24.6 cents, 5.5 cents greater than the 19.1 cent unit contribution of Single-Piece First-Class Mail Letters / Cards. *See* FY2013 ACR at 10. The FY2013 ACR data also confirm a disparity in the cost coverage between Presort Letters / Cards and Single-Piece Letters / Cards. For FY2013 the cost coverage for Presort Letters / Cards is 310.5 percent, as compared to the cost coverage for Single-Piece Letters / Cards of 169.7 percent.

As shown in Table 1 below, this disparity in unit contribution and cost coverage has existed since at least 2008 when the Postal Service began reporting costs and revenues by product.

Table 1. Single-Piece Letters / Cards and Presort Letters / Cards Unit Contribution and Cost Coverage (FY2013-FY2008)[1]				
	Single-Piece Letters/Cards Unit Contribution	Presort Letters/Cards Unit Contribution	Single-Piece Letters/Cards Cost Coverage	Presort Letters/Cards Cost Coverage
FY 2013	$0.191	$0.246	169.7%	310.5%
FY 2012	$0.181	$0.233	165.9%	292.0%
FY 2011	$0.170	$0.232	161.2%	298.8%
FY 2010	$0.174	$0.229	164.0%	295.9%
FY 2009	$0.171	$0.223	164.9%	290.4%
FY 2008	$0.169	$0.218	167.1%	298.1%

The disparity in unit contribution and cost coverage cannot be justified. It harms the Postal Service financially and discourages the growth and retention of the most profitable First-Class Mail products.

Under the CPI price cap, the overall amount of revenue that the Postal Service can collect from First-Class Mail is limited, but the Postal Service can use its pricing authority to increase the contribution that revenue produces. The Postal Service should rebalance the cost coverage and unit contributions among First-Class Mail products. It should lower prices on more profitable Presort letters. Doing so would increase the total contribution from First-Class Mail by helping to retain and grow Presort letters. Recent elasticity data confirm this. *See* Econometric Demand Equation Tables for Market Dominant Products as of January 2014 (Filed Jan. 22, 2014).

A prudent response to the financial challenges currently facing the Postal Service would be to preserve and encourage the growth of its most profitable products. Rebalancing the unit

[1] *See* FY2013 ACR at 10, Table 1: First-Class Mail Volume, Revenue, and Cost by Product; FY2012 ACR at 8, Table 1: First-Class Mail Volume, Revenue, and Cost by Product; FY2011 ACR at 16, Table 1: First-Class Mail Volume, Revenue, and Cost by Product; FY2010 ACR at 18, Table 1: First-Class Mail Volume, Revenue, and Cost by Product; FY2009 ACR at 22, Table 1: First-Class Mail Volume, Revenue, and Cost by Product; FY2008 ACR at 18, Table 1: First-Class Mail Volume, Revenue, and Cost by Product.

contribution among products within First-Class Mail Letters would improve the Postal Service's financial position by increasing contribution while creating a more equitable price schedule.

B. The Use of Commission Approved Methodologies is Essential for Meaningful Compliance Determinations

In its passthrough calculations for First-Class Mail AADC Letters, the Postal Service calculates the cost avoidance as the avoidable unit cost for Mixed AADC Letters minus a weighted average of the avoidable unit cost of AADC Letters and 3-Digit Letters. *See* USPS-LR13-3, FY13.3.Worksharing Discount Table_Final.xls, "FCM Bulk Letters, Cards." This is not the methodology approved by the Commission.

As the Commission recently clarified, "[f]ollowing the approved Commission methodology, the cost avoidance for AADC Letters is calculated as the avoidable unit cost for the Mixed AADC category minus the avoidable unit cost for the AADC category." PRC Dkt. No. R2013-11, Order No. 1926 (Dec. 24, 2013) at 160, n.141 (citing Dkt. No. RM2012-6, Library References PRC-RM2012-6-LR2 and PRC-RM2012-6-LR3).

The use of approved methodologies is required for correct compliance determinations. The Commission should correct the Postal Service's calculations using the approved methodology and require the Postal Service to use the Commission-approved methodology for estimating cost avoidances within Automation Letters in future proceedings.

Using Commission approved methodologies shows the true effect of rate design on passthroughs and gives a more accurate picture of whether the design is consistent with the law and good economics. Under the approved methodology, the passthrough for the First-Class Mail AADC Letters discount, effective January 26, 2014, is substantially above 100 percent, not 95.5 percent as reported in the ACR. At the same time, the discount for First-Class Mail 5-Digit Letters passes through substantially less than 100 percent of the costs avoided, both as reported in the ACR and under the prices implemented on January 26, 2014. The use of approved methodologies would highlight these distinctions and make plain that these prices are not as efficient as they could or should be. By setting all passthroughs within First-Class Mail Automation Letters as close as practicable to 100 percent of the costs avoided the Postal Service would promote efficiency and encourage the retention and growth of its most finely-presorted and profitable products.

C. First-Class Flats Cost Modeling Improvements

The FY2013 ACR represents the passthroughs for all First-Class Mail Flat discounts as exceeding 100 percent of the avoided costs. *See* FY13 ACR at 13-15. These passthroughs, however, are overstated because they are based on inaccurate cost avoidance estimates.

Using the improved flats cost avoidance model proposed by the Postal Service in Docket No. RM2014-1, the actual passthroughs are much closer to 100 percent and, in the case of 3-Digit Automation Flats, less than 100 percent. *See* USPS-LR13-3, FY13.3.Alternate. Worksharing Discount Table_Final.xls, "FCM Flats." Pitney Bowes encourages the Commission to use the improved First-Class Mail Flats cost avoidance model as proposed in Docket No. RM2014-1 (Proposal 8) and updated in USPS-FY13-11, in making its compliance determination.

Additionally, Pitney Bowes explained in Docket No. RM2011-3 that the Postal Service's Cost and Revenue Analysis appears to overstate the cost of First-Class Mail Presort Flats, thereby understating the cost difference between Single-Piece and Presort Flats. *See* Dkt. No. RM2011-3, Comments of Pitney Bowes Inc. (Feb. 18, 2011) at 2-3. Pitney Bowes again urges the Postal Service to review the accuracy of First-Class Mail Presort Flats cost data and propose improved costing methods to be used in preparing future Annual Compliance Reports.

III. CONCLUSION

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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